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SUBJECT: WINDFALL PROFITS TAX ON BELIZE'S OIL INDUSTRY

REF: BELMOPAN 323

¶1. (SBU) Summary: After months of difficult negotiations, on July 16, the GOB introduced a new windfall profits tax (aka petroleum surcharge) on the country's current and future domestic oil producers. Belize Natural Energy Ltd. (BNE) received a special arrangement on current production, accounting for the company's production hedges and offering a lower threshold for the surcharge, alleviating a key concern. BNE appeared pleased with the final agreement and other potential oil producers appeared ambivalent. End Summary.

¶2. (SBU) The profit potential from the nascent petroleum industry has fueled debates between the GOB and private companies for months. The widely-held public perception is that, with record-high oil prices, Belize Natural Energy Ltd. (BNE), the only company currently producing oil in Belize, is recording huge profits while the government is receiving a small percentage from income tax and royalties. (Note: income taxes were increased from 20 to 40% in 2006.) After difficult negotiations, on July 16, the GOB introduced a new windfall profits tax (aka petroleum surcharge) on the country's current and future domestic oil producers.

¶3. (SBU) The GOB announced a petroleum surcharge across the industry but carved out a special arrangement for BNE. According to Prime Minister Dean Barrow, any revenue BNE receives above the threshold price of US\$90 per barrel will be treated as windfall and is to be split 50-50 between BNE and the GOB. The surcharge is applied after deductions specified in the production sharing agreement are subtracted and will be effective September 1. Due to the higher threshold price, the agreement takes into account BNE's US\$80 price hedges on roughly 765 barrels of oil per day - a point critical in BNE's negotiations. The agreement with BNE is for current production only and represents oil resulting from the Spanish Lookout oil well. Any new finds will fall under the general industry agreement. The GOB expects the current proposal to provide approximately US\$9 million in new revenue for the remaining period of the fiscal year (September 08 - March 09).

¶4. (SBU) The general industry agreement is based on a sliding scale, which kicks in at 100 USD per barrel and moves from a 15% to a 50% surcharge at the high end of the pricing table of US\$190 per barrel.

¶5. (SBU) Media commentary noted that BNE officials seemed too supportive of the agreement and claimed there was insufficient confrontation between the government and BNE. However, the Prime Minister commented publicly that multiple negotiations have been conducted with a level of mutual respect though there was of course some tension. The PM noted in a radio interview on July 21 that Belize's Ambassador to the U.S. was summoned to Congressional Committee meetings in Washington to complain that the GOB was taking unfair advantage of BNE. In one such meeting he stated a Congressman said, "we just renewed CBI and this is how we are repaid?" The PM indicated that this made him feel nationalistic. (Note: The PM implied that he would have been offended if he

himself had been standing before the Committee. End Note) The PM stated he had also spoken to the U.S. Ambassador to Belize several times on the issue and that the Ambassador was more diplomatic in his approach on the taxation matter, the U.S. position on a good investment climate was clear.

¶16. (SBU) The opposition party has criticized the tax agreements, claiming that the delays have lasted too long. They also proposed that the windfall tax should be triggered after the oil companies achieve a pre-determined rate of return rather than by the price per barrel of oil and commented that the threshold of ninety dollars announced by the government is too high. They claimed the announced agreements are a ploy to boost the budget figures provided on July 14.

¶17. (SBU) COMMENT: If the surcharge is applied for one half-year, we estimate additional revenue to the GOB based on a US\$130 oil price, 50-50 split above the US\$90 threshold, using 3,635 unhedged barrels produced daily, to be closer to US\$13 million - much higher than the PM's estimates. The PM may have provided a conservative estimate to closer match the national budget's petroleum surcharge estimate presented on July 14. Additional revenue is critical to the GOB right now since they announced their national budget and immediately thereafter received a notice to pay an arbitration judgment for nearly US\$5 million resulting from the former government's improper dealings. This is significant for a government already relying heavily on grants from foreign governments. Though the media pressed for more confrontation in the end the news appeared to be well-received.

¶18. (SBU) BNE was unavailable for comment though the CEO gave the appearance that he was quite content with the agreement during the

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press conference with the PM. He referred to the arrangement as a "win-win agreement." BNE's almost joyful presentation at the press conference, along with their sudden disappearance from the Embassy lobby, leads us to believe the final agreement meets or surpasses their expectations. Competing oil companies present at the press conference, however, appeared somewhat ambivalent about the whole matter.

¶19. (SBU) Though we have met repeatedly with BNE and other oil companies in Belize, their financials remain obscure. It is difficult to determine whether BNE is in fact profitable or not. The Association of Concerned Belizeans placed a full page advertisement in the newspapers stating that BNE deducted exploration and infrastructure costs from their revenues incorrectly therefore keeping an additional US\$10 million from the GOB. The accounting argument will likely continue for years, but without public disclosure of full financials, the determination of BNE's profitability will be hard to determine for certain. END COMMENT.

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